



DUNDEE WealthBuilder

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Start thinking about taxes as something you can save — rather than just something you have to pay. That is, if you save money regularly inside your RRSP throughout the year, you can end up paying less overall at tax time.

If you weren't able to make a full RRSP contribution to count towards your 2007 tax return in April, let's make sure you can make the most of your savings in 2008, starting right now.

There's no need to feel bad about missing out: the good news is that you are allowed to carry forward any unused RRSP contribution room leftover from years past. So, there may still be untapped opportunities for tax savings in your future!

Call to explore strategies we can take to invest more effectively, and make tax-smart contributions to your RRSPs all year long.

How many funds are too many?

Keep your focus to achieve the benefits of diversification

With thousands of mutual funds widely available in Canada, it's easy to create a broadly diversified portfolio. In fact, it's almost too easy. Many investors become convinced they need "one of each" to get the benefits of diversification.

However, it is possible to have too much of a good thing — even diversification.

If you have too many funds, it can be difficult to track your portfolio's performance. Record-keeping can be problematic (particularly in your non-registered portfolio). And you may end up with significant overlap in your holdings — so instead of diversification you actually have duplication. If markets go down, this can magnify your losses.

Are you over-diversified? A general rule of thumb is one fund for each \$10,000 to \$25,000 of capital you have. But you should generally limit yourself to 10 funds or less in either your registered or non-registered portfolio.

Start by selecting one "core" fund for each of your portfolio's three components: cash, income, and equities. Then add to these holdings by assessing your exposure to Canada, the United States, and the

rest of the world. Finally, you may want to consider one or two "specialty" funds, such as science and technology or the emerging markets.

If you are just getting started, or your portfolio is still relatively small — say, less than \$5,000 — a single balanced fund might be your best bet. Professional advice can help you effectively diversify your portfolio. ■



Too much tax on your investments? Consider tax-smart mutual funds

Mutual funds can be more than just investment vehicles. They have also evolved into effective tax-planning tools. That can be a key consideration for anyone investing outside a tax-deferred registered plan.

Here are three ways mutual fund investing can help you trim your taxes.

1. Tax-savvy management. During the year, mutual funds may receive interest and dividends, and fund managers may trade securities, creating capital gains and losses. By year-end they must distribute to their unitholders any earnings that exceed their deductible expenses and trading losses. These distributions are then taxable in the hands of the unitholders.

When the mutual funds are held within a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), the distributions have no immediate tax implications. But outside a sheltered plan, the tax can take a bite out of the returns. The amount of tax you have to pay will depend on the amount and type of distributions as



well as on your marginal tax rate. Aggressively run funds typically do the most trading and generate the most capital gains, but even very conservative funds may undertake some selling when markets are buoyant.

Some funds have a set policy of trading as little as possible. These disciplined buy-and-hold funds may produce the most tax-efficient gains over time.

Look at a fund's tax-efficiency ratings to compare funds with similar objectives and performance and find the one with the best after-tax record.

2. Corporate-class funds. Corporate-class structures place several funds under one corporate umbrella, unlike the traditional setup in which each fund operates as a stand-alone trust.

This has two tax advantages for investors. For one, you can switch among funds in the group without triggering a taxable capital gain.

In addition, the corporate-class structures are better able to avoid having to make taxable distributions. This is because all funds under the corporate umbrella form one taxable entity. Deductible expenses or losses for one fund can offset the tax due on big trading gains for another. Using this approach, some funds have been able to maintain long records of making no distributions at all.

3. Income funds. Some income funds are much more tax-efficient than others. The key lies in the make up of their distributions — how much consists of fully taxed interest and how much is dividends and capital gains, which are taxed more lightly. As well, some funds have large holdings in tax-advantaged income trusts and royalty trusts. Note, however, that more tax-efficient funds often have less predictable income streams.

Professional guidance can help you identify which options are right for you. ■

Tax bite on different investment income

If you hold investments outside an RRSP or RRIF, where they're not tax-sheltered, here's what you keep on every \$1 of income you earn from:



Capital gains
(upon sale)

\$0.84

Eligible Canadian
dividends

\$0.91

Bonds and
other interest

\$0.67

Foreign stocks
and bonds

\$0.67

For illustration only; actual rates will vary. Based on an Ontario resident earning \$70,000 in 2007. To find other provincial rates please visit www.ey.com and follow the path: Global Home>Canada Home>Services & Solutions>Tax>Tax Calculators>2007 Personal Tax.

Source: 2007 Personal Tax Calculator, Ernst & Young

Watch out for these 4 costly investing traps

Investing would be a whole lot easier if the markets moved in a rational, predictable fashion. Unfortunately, they don't. Market activity is the collective result of individual investors' decisions, and individual investors are not always rational.

Researchers who study behavioural finance or the psychological analysis of how individuals make money management decisions have identified four common investment traps.

1 Fear of regret. If we're not careful, the fear of making the wrong decision can become so powerful that we avoid decision-making altogether. For example, we might keep too much investment money parked in cash, hold on to an investment long after it should have been sold, or automatically reject new ideas. Also, after an investment turns out to be a disappointment, some people never buy another.

2 Framing. This is the tendency to divide our finances into distinct clusters and "frame" them by managing each cluster without regard to the others. Many people, for example, work hard at reducing their home mortgage while continuing to carry credit card debt at much higher interest rates. The rational

approach would be to view their entire financial situation and then allocate money based on potential payback.

3 Availability. Many investors have a strong tendency to buy whatever's new and exciting — regardless of whether it's appropriate for their portfolio or even a sound investment. A good example is the dot-com bubble: technology funds were hot sellers, while time-tested balanced funds were considered boring. In addition, researchers have found that stocks and mutual funds tend to experience a surge in popularity right after being featured on a magazine cover or television show.

4 Confirmation bias. Investors who are open only to information that confirms their thinking are exhibiting confirmation bias. For example, an investor may never review or consider changing a favourite investment, even if it is no longer an appropriate choice.

It's easy to identify these traps, but much harder to actually keep our human nature under control. If you think you might be susceptible to behavioural traps in your own approach to investing, professional advice can help. Objective counsel can present your options in a clear, rational light. ■

A CLOSER LOOK AT...

Source deduction tax waiver

Why wait a year or more to reap the tax benefits created by a Registered Retirement Savings Plan (RRSP) contribution or other tax breaks? Consider requesting a source deduction waiver.

What it is

With every paycheque, your employer is required to deduct a certain percentage and remit it to the Canada Revenue Agency (CRA) or Revenu Québec towards your income tax for the year. But when you also have significant tax deductions, such as RRSP contributions, sizable charitable contributions, deductible investment loan interest, rental losses, or childcare expenses, the amount deducted may not accurately reflect what you'll actually owe by the end of the year.

If you can demonstrate to the CRA or Revenu Québec that you are, in essence, overpaying, it will issue a source deduction waiver that permits your employer to deduct less tax.

To apply for the waiver, submit form T1213 to the CRA and, if applicable, form TP-1016 to Revenu Québec. You can download the forms from their websites. If your tax account is in good order, officials calculate the projected tax savings and authorize your employer to reduce your withholding by that amount. Note that you have to apply for the waiver annually; it doesn't carry over from one year to the next.

Why it matters

With the money in your pocket instead, you can put it to better use, such as contributing it to your RRSP, paying down debt, or investing. ■



Review your risk tolerance

IN AN ERA of risk management, it may be time to review your risk tolerance and portfolio.

Long gone are the boom days of the 1990s when every stock and equity mutual fund seemed to soar. Investor Economics Inc., a consulting firm that tracks the investment industry, characterizes that time as “the era of risk embracement,” when many investors took on significant risk in the expectation of big returns.

A shift in attitude

The new millennium brought the bear market of 2000–2002 and an “era of risk aversion.” Many investors gravitated towards a wait-and-see stance, says Investor Economics. Mutual fund redemption statistics from that time reveal how investors generally maintained holdings but kept new money parked on the sidelines.

Protection and growth

Since then, and another period of record growth, we’re well into an era of risk management. Investors want to protect their capital, yet want — and need — growth. As a result, they are gradually accepting investment risk, but with a decidedly conservative bias.

Whatever your investment profile, you may want to review your risk tolerance and current portfolio. Professional advice can help you decide how well any particular mutual fund investment suits your profile. ■

Widen your world with global funds

The Canadian stock market has been among the world’s top performers for more than five years. At the same time, the soaring loonie has substantially reduced returns from foreign investments when converted to our currency. As a result, the Canadian equity portion of your portfolio may have grown substantially while your international equity mutual funds may have grown less, or even declined.

While some exposure to Canadian equities is certainly desirable, there are several compelling reasons to invest globally as well. Here is a brief review of some of the benefits of diversifying globally through mutual funds.

Diversification reduces risk

Perhaps the most important reason to hold international as well as Canadian mutual funds is for diversification. A portfolio concentrated in any one area is vulnerable to a correction in that area.

By diversifying into other markets, especially those that tend not to move at the same time or in the same direction as Canadian markets, you reduce the risk level of your portfolio.

More options

The Canadian stock market is very small on the international scale. In fact, about 96% of the world’s market capitalization is found outside of Canada.

More significantly, our market is heavily concentrated in just three sectors:

financials, energy, and materials. A portfolio that is heavily weighted in Canadian equity funds may be missing out on the potential growth in other important sectors, such as telecommunications and healthcare.

Emerging opportunities abound

Canada has a mature economy. That means that our markets, for the most part, provide relatively steady overall growth. Emerging markets, on the other hand, tend to be more volatile. On the downside, this means potential market declines can be sudden and severe. But on the positive side, it’s not unusual for countries such as China, India, Korea, Brazil, and Mexico to post double-digit economic growth figures, and for investors to benefit when that happens. So adding international mutual funds — in keeping with your optimal asset allocation and risk tolerance level — offers the potential to increase returns.

Mutual funds make it easy

Mutual funds are an ideal choice for investors who want to gain exposure to the global market. Some are broadly diversified, holding different kinds of assets from a number of countries or regions, while others are highly focused. And because mutual funds are professionally managed, you don’t need to worry about researching or tracking individual foreign investments.

With professional advice, you can find the funds that best complement your Canadian-content mutual funds. ■

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